

PERAC AUDIT REPORT



Winchester Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2004 / PERAC 04: 11-097-20



TABLE OF CONTENTS

Letter from the Executive Director.....	1
Explanation of Findings and Recommendations.....	2
Statement Of Ledger Assets And Liabilities.....	5
Statement Of Changes In Fund Balances.....	6
Statement Of Income.....	7
Statement Of Disbursements.....	8
Investment Income	8
Statement Of Allocation Of Investments Owned.....	9
Supplementary Investment Regulations.....	10
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	12
Note 2 - Significant Accounting Policies.....	13
Note 3 - Supplementary Membership Regulations.....	14
Note 4 - Administration Of The System.....	17
Note 5 - Actuarial Valuation And Assumptions.....	17
Note 6 - Membership Exhibit.....	18

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

HENRY G. BRAUER | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

November 30, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Winchester** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2001** to December 31, **2004**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

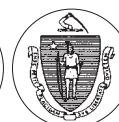
In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Ryan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Winchester Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

1. State Street Bank Cash Account:

The general ledger (GL) balance for the State Street Bank Money Market account has been understated by \$151,894.86 since December 31, 2003. This was the result of an incorrect journal entry to record accounts receivable at December 31, 2003. As of December 31, 2004 the GL balance has not been corrected.

Recommendation:

The Retirement Administrator should immediately make the correcting adjusting entry to correct the GL cash balance.

Board Response:

The Retirement Administrator has made an adjusting entry of \$151,894.86 in January 2005 to correct the understated GL cash balance.

2. Annual Statement:

Based upon inspection of the Annual Statements filed by the Board for the four year audit period, it was determined that certain line item amounts contained in the Annual Statement did not match the detailed supporting schedules. Variances were found in investment income, and realized and unrealized gains and losses. For the year 2004, not all cash accounts were listed in Schedule 1. Furthermore, the 2004 year end balance of custodian cash on Schedule 1 was higher than the GL by \$151,894.86. In addition, the components of Investment Income Received as recorded the Investment Income page did not reconcile to the supporting schedules. Schedule No. 6 "Summary of Investments Owned" had not been filed with the annual statement for the past three years. Furthermore, Schedule No. 5 "Schedule of Pooled Funds" does not conform to PERAC guidelines.

Recommendation:

As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement allowing readers to make an accurate assessment of the system's financial condition without having to reference the GL. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian-provided schedules should be corrected, if needed, and reconciled to the GL prior to submission of the Annual Statement. All income from cash accounts must be listed on Schedule 1 and agreed to the amount reported in the Annual Statement. All receipts and investment income must be reported in summary form on Schedule No. 6, agreed to the GL, and filed with the Annual Statement.

Investment transactions such as realized and unrealized gains and losses, as well as categories of investment income, should be agreed to their respective statement or supporting schedule. Gains and losses should be reported in both the GL and supporting schedules at "Gross" gain or loss. Schedule No. 5 must be prepared in accordance with

Winchester Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

PERAC guidelines and include the funds related GL account number and Gross Realized and Unrealized Gains and Losses.

Board Response:

Care will be taken in the future to ensure that all entries on the Annual Statement agree with the detailed supporting schedules and that the Annual Statement will be prepared in accordance with PERAC guidelines.

3. Deceased Member's Unreturned Pension Benefits:

The Winchester Retirement System is owed \$5,120 relating to pension checks cashed by a deceased member's daughter. The member was deceased in December 1999. The Board's attorney has not been able to secure the overdue funds back to the Town, despite various legal attempts. As of May 2005, the Town has entered a Motion for Order in the Woburn District Court to obtain the \$5,120 from an un-cashed life insurance policy held by the Town. The amount of the life insurance policy is \$4,000, and the balance of \$1,120 would be due from the daughter of the deceased member.

Recommendation:

The Winchester Retirement Board must ensure that the Board's attorney continue the collection and legal process. Furthermore, any future issues of this type should be resolved expeditiously.

Board Response:

A deceased member of the Winchester Retirement System was overpaid by \$4,779.30 due to the fact that she died on 12/5/99 and the Retirement Board was not notified until about 5/30/00. The Retirement Board's attorney tried various legal avenues to secure the overpaid funds. A judgment was issued for the Winchester Retirement Board in the amount of \$5,120 to be paid by the deceased member's daughter. The Winchester Retirement System has received \$4,000 from the deceased member's life insurance policy. The Retirement Board voted, at its August 25, 2005 meeting, to write off the remainder due of \$1,120 in light of the fact that in attempting to collect these funds the attorney's fees over the past six years have amounted to \$3,565, well over the amount of \$1,120 that is due to the Winchester Retirement System.

Final determination

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken on all audit findings.

Winchester Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2004	2003	2002	2001
Cash	\$4,587,620	\$2,916,241	\$4,527,690	\$3,141,137
Short Term Investments	0	0	0	0
Fixed Income Securities (at book value)	0	0	17,669,154	18,088,823
Equities	11,398,593	14,611,162	12,891,739	15,630,082
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	3,913,362	9,479,461	7,215,547	8,596,249
Pooled International Equity Funds	0	6,791,460	0	0
Pooled Global Equity Funds	18,846,270	2,822,201	6,929,400	8,461,443
Pooled Domestic Fixed Income Funds	10,571,493	10,130,617	0	0
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	0	0	0	0
Pooled Real Estate Funds	2,986,229	2,601,528	0	0
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	12,446,885	9,405,205	0	0
Interest Due and Accrued	0	0	191,168	304,272
Accounts Receivable	37,586	151,895	2,663	199,225
Accounts Payable	(377,436)	0	0	0
TOTAL	<u>\$64,410,601</u>	<u>\$58,909,769</u>	<u>\$49,427,361</u>	<u>\$54,421,230</u>
FUND BALANCES				
Annuity Savings Fund	\$12,731,153	\$12,216,549	\$11,974,055	\$11,084,502
Annuity Reserve Fund	4,926,785	4,863,839	4,624,104	4,718,076
Pension Fund	3,793,134	5,231,968	6,776,945	8,105,391
Military Service Fund	7,421	7,334	716	6,292
Expense Fund	0	0	0	0
Pension Reserve Fund	42,952,108	36,590,079	26,051,540	30,506,971
TOTAL	<u>\$64,410,601</u>	<u>\$58,909,769</u>	<u>\$49,427,361</u>	<u>\$54,421,230</u>

Winchester Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2001)	\$10,744,823	\$4,116,553	\$9,280,677	\$6,210	\$0	\$31,520,309	\$55,668,572
Receipts	1,590,684	131,714	2,453,595	81	325,513	(1,015,144)	3,486,443
Interfund Transfers	(991,344)	989,538	0	0	0	1,806	0
Disbursements	(259,661)	(519,730)	(3,628,881)	0	(325,513)	0	(4,733,785)
Ending Balance (2001)	11,084,502	4,718,076	8,105,391	6,292	0	30,506,971	54,421,230
Receipts	1,462,476	139,447	2,524,100	10	310,447	(4,500,020)	(63,539)
Interfund Transfers	(422,712)	383,707	0	(5,585)	0	44,590	0
Disbursements	(150,210)	(617,126)	(3,852,546)	0	(310,447)	0	(4,930,329)
Ending Balance (2002)	11,974,055	4,624,104	6,776,945	716	0	26,051,541	49,427,362
Receipts	1,265,164	142,356	2,541,816	6,929	319,174	10,540,369	14,815,808
Interfund Transfers	(690,829)	692,970	0	(311)	0	(1,831)	0
Disbursements	(331,841)	(595,592)	(4,086,793)	0	(319,174)	0	(5,333,400)
Ending Balance (2003)	12,216,549	4,863,839	5,231,968	7,334	0	36,590,079	58,909,770
Receipts	1,498,666	146,021	2,896,521	44	368,392	6,362,029	11,271,673
Interfund Transfers	(554,210)	551,210	3,000	0	0	0	0
Disbursements	(429,853)	(634,284)	(4,338,355)	0	(368,392)	0	(5,770,885)
Ending Balance (2004)	\$12,731,153	\$4,926,785	\$3,793,134	\$7,378	\$0	\$42,952,108	\$64,410,559

Winchester Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,				
	2004	2003	2002	2001
Annuity Savings Fund:				
Members Deductions	\$1,204,197	\$1,051,879	\$1,155,126	\$1,045,665
Transfers from other Systems	114,191	13,779	71,730	285,570
Member Make Up Payments and Redeposits	85,933	86,381	85,301	65,968
Member Payments from Rollovers	26,015	0	0	0
Investment Income Credited to Member Accounts	68,330	113,125	150,319	193,481
Sub Total	<u>1,498,666</u>	<u>1,265,164</u>	<u>1,462,476</u>	<u>1,590,684</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	146,021	142,356	139,447	131,714
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	138,739	112,990	111,201	84,903
Received from Commonwealth for COLA and Survivor Benefits	247,463	131,724	286,187	261,192
Pension Fund Appropriation	2,510,319	2,297,102	2,126,712	2,107,500
Sub Total	<u>2,896,521</u>	<u>2,541,816</u>	<u>2,524,100</u>	<u>2,453,595</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	6,924	0	0
Investment Income Credited Military Service Fund	44	4	10	81
Sub Total	<u>44</u>	<u>6,929</u>	<u>10</u>	<u>81</u>
Expense Fund:				
Expense Fund Appropriation	51,495	58,475	52,454	63,390
Investment Income Credited to Expense Fund	316,897	260,699	257,994	262,123
Sub Total	<u>368,392</u>	<u>319,174</u>	<u>310,447</u>	<u>325,513</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	0	0
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	4,203	(104)	1,318	1,548
Excess Investment Income	6,357,827	10,540,473	(4,501,338)	(1,016,692)
Sub Total	<u>6,362,029</u>	<u>10,540,369</u>	<u>(4,500,020)</u>	<u>(1,015,144)</u>
TOTAL RECEIPTS	<u>\$11,271,673</u>	<u>\$14,815,808</u>	<u>(\$63,539)</u>	<u>\$3,486,443</u>

Winchester Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,				
Annuity Savings Fund:	2004	2003	2002	2001
Refunds to Members	\$104,126	\$136,527	\$74,942	\$114,935
Transfers to other Systems	325,726	195,314	75,269	144,726
Sub Total	<u>429,853</u>	<u>331,841</u>	<u>150,210</u>	<u>259,661</u>
Annuity Reserve Fund:				
Annuities Paid	617,148	594,315	554,132	519,287
Option B Refunds	17,137	1,277	62,994	443
Sub Total	<u>634,284</u>	<u>595,592</u>	<u>617,126</u>	<u>519,730</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	2,633,950	2,525,194	2,453,697	2,343,362
Survivorship Payments	418,228	384,373	325,636	359,121
Ordinary Disability Payments	43,751	34,992	29,557	28,947
Accidental Disability Payments	680,426	604,364	586,601	604,040
Accidental Death Payments	342,167	323,869	348,256	192,861
Section 101 Benefits	20,610	20,131	19,838	14,064
3 (8) (c) Reimbursements to Other Systems	118,993	102,823	88,961	86,486
State Reimbursable COLA's Paid	80,229	91,047	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0	0
Sub Total	<u>4,338,355</u>	<u>4,086,793</u>	<u>3,852,546</u>	<u>3,628,881</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	0	0	0	0
Expense Fund:				
Board Member Stipend	3,000	3,000	3,000	2,500
Salaries	48,495	55,475	50,610	61,139
Legal Expenses	1,250	5,469	9,360	4,360
Fiduciary Insurance	3,180	3,561	2,907	0
Travel Expenses	2,187	1,564	4,161	4,172
Administrative Expenses	3,075	19,496	25,589	18,140
Furniture and Equipment	0	0	0	8,390
Management Fees	230,036	198,883	187,452	199,997
Custodial Fees	68,329	25,034	27,368	26,814
Service Contracts	8,840	6,691	0	0
Sub Total	<u>368,392</u>	<u>319,174</u>	<u>310,447</u>	<u>325,513</u>
TOTAL DISBURSEMENTS	<u>\$5,770,885</u>	<u>\$5,333,400</u>	<u>\$4,930,329</u>	<u>\$4,733,785</u>

Winchester Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2004	2003	2002	2001
Investment Income Received From:				
Cash	\$27,278	\$49,683	\$8,237	\$1,852
Short Term Investments	49,102	433,767	60,023	197,630
Fixed Income	435,032	671,724	1,206,442	1,394,386
Equities	89,782	408,518	157,851	59,408
Pooled or Mutual Funds	575,846	48,212	0	0
Commission Recapture	<u>4,112</u>	<u>20,309</u>	<u>78</u>	<u>137</u>
TOTAL INVESTMENT INCOME	<u>1,181,150</u>	<u>1,632,212</u>	<u>1,432,631</u>	<u>1,653,413</u>
Plus:				
Realized Gains	1,308,191	2,625,407	536,671	1,184,649
Unrealized Gains	8,389,318	10,902,631	3,467,838	5,062,449
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>191,168</u>	<u>304,272</u>
Sub Total	<u>9,697,508</u>	<u>13,528,038</u>	<u>4,195,677</u>	<u>6,551,370</u>
Less:				
Paid Accrued Interest on Fixed Income Securities	0	(118,796)	(103,434)	(119,029)
Realized Loss	(957,550)	(856,138)	(1,972,096)	(1,199,242)
Unrealized Loss	(3,031,990)	(2,937,490)	(7,275,659)	(6,957,224)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>0</u>	<u>(191,168)</u>	<u>(304,272)</u>	<u>(356,577)</u>
Sub Total	<u>(3,989,540)</u>	<u>(4,103,592)</u>	<u>(9,655,461)</u>	<u>(8,632,073)</u>
NET INVESTMENT INCOME	<u>6,889,118</u>	<u>11,056,658</u>	<u>(4,027,154)</u>	<u>(427,291)</u>
Income Required:				
Annuity Savings Fund	68,330	113,125	150,319	193,481
Annuity Reserve Fund	146,021	142,356	139,447	131,714
Military Service Fund	44	4	10	81
Expense Fund	<u>316,897</u>	<u>260,699</u>	<u>257,994</u>	<u>262,123</u>
TOTAL INCOME REQUIRED	<u>531,292</u>	<u>516,185</u>	<u>547,770</u>	<u>587,400</u>
Net Investment Income	<u>6,889,118</u>	<u>11,056,658</u>	<u>(4,027,154)</u>	<u>(427,291)</u>
Less: Total Income Required	<u>531,292</u>	<u>516,185</u>	<u>547,770</u>	<u>587,400</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$6,357,827</u>	<u>\$10,540,473</u>	<u>(\$4,574,923)</u>	<u>(\$1,014,690)</u>

Winchester Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$4,587,621	7.09%	100
Short Term	0	0.00%	100
Fixed Income	0	0.00%	40 - 80
Equities	11,398,593	17.60%	40
Pooled Domestic Equity Funds	3,913,362	6.04%	
Pooled Global Equity Funds	18,846,270	29.11%	
Pooled Domestic Fixed Income Funds	10,571,493	16.33%	
Pooled Real Estate Funds	2,986,229	4.61%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	12,446,885	19.22%	100
GRAND TOTALS	<u>\$64,750,453</u>	<u>100.00%</u>	

For the year ending December 31, **2004**, the rate of return for the investments of the **Winchester** Retirement System was 12.55%. For the five-year period ending December 31, **2004**, the rate of return for the investments of the **Winchester** Retirement System averaged 5.63%. For the twenty-year period ending December 31, **2004**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Winchester** Retirement System was 10.78%.

Winchester Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

The **Winchester** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

February 8, 1989

20.03 (1) Equity investments shall not exceed 55% of the total book value of the portfolio at the time of purchase, including international equities which shall not exceed 7.5% of the portfolio valued at market.

January 2, 1992

16.02 (4) The board may employ a custodian and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund..

April 15, 1993

20.03 (1) Equity investments shall not exceed 55% of the total book value of the portfolio at the time of purchase.

June 21, 1995

20.03 (1) Equity investments shall not exceed 55% of the portfolio valued at market, including international equities which shall not exceed 7.5% of the portfolio valued at market.

20.04 (1) United States based corporations and equities of foreign corporations.

20.07 (5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

April 18, 1996

20.03 (2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 5% of the total fixed income portfolio valued at market.

June 21, 2002

20.03 (1) The Winchester board may invest funds of the Town of Winchester Retirement System (the "System") with real estate investment fund known as the Guggenheim Plus Real Estate Trust (the "Fund"), and while the assets of the System are so invested, the activities and the investments of the Fund and the affiliated and unaffiliated underlying funds and accounts in which the Fund invests, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), taking into account ERISA Section 408(b)(8), Prohibited Transaction Class Exemption 91-38, Prohibited Transaction Class Exemption 84-14, and 29 CFR § 2510.3-101.

The limitations of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment. For purposes of applying the limitation set forth in 840 CMR Section 19.01(6)(c), the Fund's investment in affiliated

Winchester Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

entities shall be treated as invested in the investments directly or indirectly held by these entities, pro rata based on the Fund's indirect net investment in each.

20.03 (2) Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations the Winchester Retirement Board may invest funds of the Winchester Retirement System (the "System") with the real estate investment fund known as Realty Associates Fund VI Corporation (the "Fund"), and while the assets of the System are so invested,

(i) the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund or the operating partnership in which the Fund is invested (the "OP"); provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" \ within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated there under, or the assets of the Fund and the OP would not be treated as plan assets under ERISA; and

(ii) The limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

February 26, 2003

16.08 (1) In accordance with Investment Guideline 99-2, the Winchester Retirement Board is authorized to invest in the SSGA International Alpha Fund. As part of its portfolio rebalancing, the Board is adding to its holdings in international equity. In accomplishing this, the Board is supplementing its current investment in the SSGA International Opportunities Fund by initiating an investment in the SSGA International Alpha Fund. Both Funds have an MSCI-EAFE benchmark, with the existing fund having a growth "tilt" and the Alpha Fund a "value" tilt. The Board has had a satisfactory experience with SSGA in international equity and benefits from the low management fees of SSGA's commingled funds.

Winchester Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Winchester** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Winchester Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Winchester Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Winchester** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

- Effective August 1, 1978, part-time employees must be employed for a minimum of twenty (20) hours per week in order to become members of the Town of Winchester Contributory Retirement System. Creditable Service will be accrued upon actual working hours based upon a minimum of twenty (20) hours per week and said minimum must be accrued upon a thirty-two (32) week year.
- Individuals whose employment consists of periods of part-time service shall have creditable service for

Winchester Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

the part-time portion pro-rated by the Board of Retirement. Periods of part-time service shall, however, be fully creditable to the extent of full time service, provided that an employees service is, fully continuous, and further, that he has five (5) years of full time service. In such cases, the part-time service shall be credited as full-time in an amount equal to full-time service with the balance pro-rated.

- Professional, temporary, temporary provisional, seasonal or intermittent service of less than three (3) consecutive calendar months, for employees classified in Group 1, shall not be considered creditable service unless a shorter period of time is immediately followed by permanent employment.
- If the Board of Retirement denies an application for a retirement allowance under the provisions of G.L. C. 32, sections 6 or 7, a similar application shall not be accepted within one (1) year from the date of denial unless:
 - 1) new evidence, 2) a new accident, or 3) aggravation of a pre-existing condition ensue.

Winchester Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PERAC** as of **January 1, 2003**.

The actuarial liability for active members was	\$33,799,641
The actuarial liability for retired members was	<u>38,227,274</u>
The total actuarial liability was	72,026,915
System assets as of that date were (actuarial value)	<u>56,841,465</u>
The unfunded actuarial liability was	<u>\$15,185,450</u>
The ratio of system's assets to total actuarial liability was	78.9%
As of that date the total covered employee payroll was	\$13,361,418

The normal cost for employees on that date was 8.00% of payroll

The normal cost for the employer was 6.00% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
Rate of Salary Increase: varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2003	\$56,841,465	\$72,026,915	\$15,185,450	78.9%	\$13,361,418	113.65%
1/1/2001	\$55,668,572	\$62,489,235	\$6,820,663	89.1%	\$12,543,350	54.38%
1/1/1998	\$43,201,137	\$53,156,586	\$9,955,449	81.3%	\$11,346,023	87.74%
1/1/1996	\$32,443,257	\$44,926,874	\$12,483,617	72.2%	\$9,952,808	125.43%
1/1/1993	\$23,663,527	\$38,764,951	\$15,101,424	61.0%	\$8,658,150	174.42%

Winchester Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	7	11	12	11	7	13	18	2	9	2
Ordinary Disability	0	0	0	0	0	0	0	0	1	0
Accidental Disability	0	1	1	2	0	1	0	0	2	0
Total Retirements	7	12	13	13	7	14	18	2	12	2
Total Retirees, Beneficiaries and Survivors	318	313	320	317	319	319	328	321	313	319
Total Active Members	328	307	310	324	353	381	365	346	342	333
Pension Payments										
Superannuation	\$1,404,843	\$1,543,952	\$1,631,775	\$1,729,507	\$1,855,672	\$2,084,152	2,343,362	2,453,697	2,525,194	2,633,950
Survivor/Beneficiary Payments	244,916	246,729	110,700	219,706	240,279	269,968	359,121	325,636	384,373	418,228
Ordinary Disability	23,172	23,172	31,902	33,718	27,601	28,117	28,947	29,557	34,992	43,751
Accidental Disability	549,707	540,902	557,171	586,288	585,811	614,280	604,040	586,601	604,364	680,426
Other	277,362	240,735	457,587	305,510	354,343	284,551	293,412	457,056	537,870	562,000
Total Payments for Year	<u>\$2,500,000</u>	<u>\$2,595,490</u>	<u>\$2,789,135</u>	<u>\$2,874,730</u>	<u>\$3,063,706</u>	<u>\$3,281,067</u>	<u>\$3,628,881</u>	<u>\$3,852,546</u>	<u>\$4,086,793</u>	<u>\$4,338,355</u>

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